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Bank's troubles paper trail

By JOE TRENTO

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WASHINGTON — One of the CIA's real secrets — how it moves funds for clandestine operations around the world — may become a casualty of a bank scandal in Australia.

The fall of the Nugan-Hand Merchants Bank Ltd. of Sydney has been marked by the mysterious death of one its founders and the disappearance of another with \$5 million, and unpaid debts of as much as \$60 million.

The investigation is being closely watched at Central Intelligence Agency headquarters in Langley, Va., and a number of former top-level CIA officials, including director William Colby and the missing John A. Paisley, have links to the people who founded and operated that bank.

The key figure in the investigation is Jon Michael Hand, a 37-year-old former Green Beret who co-founded the bank and who disappeared in early July with an estimated \$5 million, according to Australian authorities.

His Australian partner, Francis J. Nugan, was found shot to death near Sydney in February. His death is still under investigation.

Hand once worked on Operation Phoenix, the CIA assassination plan in Vietnam headed by Colby, who later became CIA director. And Colby was Nugan's American attorney, investigators learned after Colby's card was found in Nugan's possessions after his death.

Hand also controlled Austral-Asian Holding Co., which was used by the CIA to launder money for its activities. Laundering is the term used to describe the way money is funneled through legitimate-appearing banks and business to finance secret work.

And a number of present and former CIA employees have dealings with the principals in the case, or are stockholders of the financially troubled bank.

John Paisley's interest in Hand and his companies is just the latest mystery to enter the story of the 55-year-old former CIA director of strategic research.

Paisley was working for the international accounting firm of Coopers & Lybrand when he disappeared on Sept. 24, 1978, while sailing on Chesapeake Bay.

A body was discovered later and identified as his, and the death called a suicide.

CIA sources confirmed that Paisley had asked for files from the CIA comptroller's office and for information from other CIA officials about Hand and his Austral-Asian Holding Co.

He probably learned that Hand became a shareholder in 1969 of the company for which all mail was sent to Australia in care of Air America, the CIA's airline in Vietnam. By the time Hand disappeared this year, he was the majority stockholder in the holding company, whose other shareholders included CIA employees.

It is not known why Paisley was looking into Hand and his companies. One man who might have had an explanation is Walter McDonald, who was an official of the failed Nugan-Hand Bank. McDonald was a sailing friend of Paisley, and his name was in Paisley's personal telephone book.

McDonald, who once was the CIA's expert on Arab oil and who later forecast the oil embargo, recalled that Paisley had asked him to join him at Coopers & Lybrand.

"Paisley had set up an appointment for me to come in to talk to K. Wayne Smith Jr. John wanted me to come to work there. But I never made the appointment because he disappeared," McDonald told the Sunday News Journal.

Smith, managing partner for Coopers' Washington office, has never spoken about the Paisley case. But sources at the accounting firm told the Sunday News Journal that Paisley operated on his

own
CIA
ner
and

ing experience that would qualify him for the job.

McDonald says that while he knows nothing about CIA deposits at the Nugan-Hand bank, "I wouldn't be surprised if some turned up."

McDonald does say that Nugan once told him that if "my former company [the CIA] needed the services of the bank, they would be made available. Nugan even told me the name of a London bank that was a cooperating one with the CIA."

McDonald introduced Colby, his former boss, to Nugan, then his boss. That occurred, McDonald says, at the Singapore hideaway home of an Indonesian general. He did not explain the link between Colby and the Indonesian, or why they all were there.

Colby will not say how he came to be Nugan's lawyer, and says it would be improper to discuss their relationship. The former CIA director said a "mutual friend brought us together." Colby refused to identify the friend, but said he was consulted on the "American point of view of a number of legal questions."

Colby's law firm was left with \$75,000 in outstanding legal bills at the time of Nugan's death. McDonald said he forwarded a \$34,000 legal bill to the bank's Florida office earlier this year. McDonald said Colby's firm represented Nugan on tax matters.

Colby insists the entire matter "has nothing to do with the CIA," but Australian authorities are looking into the CIA link along with many others in their investigation bank scandal.

For a period of Hand's enlistment with the Green Berets, he was on loan to the CIA for Colby's Operation Phoenix. The CIA placed 1960s was designed to "neutralize" the Viet Cong, often through assassinations.